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LOGISTICS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

January 12, 1993

(L/MRM)

DEFENSE ENERGY PROGRAM POLICY MEMORANDUM (DEPPM) 93-1

MEMORANDUM FOR DESIGNATED ENERGY OFFICIALS OF THE OFFICE OF THE  
SECRETARY OF DEFENSE, MILITARY SERVICES, THE JOINT  
STAFF, AND THE DEFENSE AGENCIES

SUBJECT: Centralized Competitive Acquisition of Direct Supply Natural Gas

This memorandum revises responsibilities and procedural guidelines for the centralized, competitive acquisition of direct supply natural gas to ensure increased program efficiency and cost savings. The revisions have been jointly developed by the Defense Logistics Agency (Defense Fuel Supply Center) and the Military Departments based on experience gained in the program since the issuance of Defense Energy Program Policy Memorandum 91-1, "Centralized Contracting for Source Supply Natural Gas," hereby cancelled.

The deregulation of and subsequent increased competition in the natural gas transportation and supply industries have provided the opportunity for substantial energy cost savings for customers able to participate in the acquisition of direct supply natural gas. It is the Department of Defense policy to buy direct supply natural gas for use at all installations where such contracts will provide reduced cost with the same degree of secure and reliable mission support as alternative sources of energy. Exceptions to installations' participation in this program are permitted only under the attached procedures. It is imperative that full cooperation and support be given to the process at all Department levels in order that maximum savings are realized.

The acquisition of natural gas is an evolving process and we encourage you to provide suggestions for improving these guidelines.

Diane K. Morales  
Deputy Assistant Secretary  
(Logistics)

Attachment

## **Acquisition of Direct Supply Natural Gas**

### **1.0. OBJECTIVES:**

- 1.1.** The basic objective of centralizing acquisition of direct supply natural gas under the Defense Logistics Agency (DLA), through the Defense Fuel Supply Center (DFSC) is to meet customer natural gas requirements in the most cost effective and efficient manner.
- 1.2.** Ensuring mission support and the appropriate reliability of supply will take precedence over all other considerations in natural gas acquisition. Within the Department of Defense (DoD), DFSC and the Military Departments will assure that each using installation has appropriate sources of energy to accomplish its mission.

### **2.0. POLICIES:**

- 2.1.** All Department of Defense installations utilizing natural gas will participate in the DFSC direct supply natural gas program. Participation means:
  - (1) Providing data as required on historical and projected natural gas use, alternative fuel capability and associated site costs, sufficient to allow economic evaluation by DFSC of the potential for inclusion in a contract solicitation.
  - (2) Providing the necessary administrative support for post-award supply management, nomination, balancing and payment functions if a contract is awarded.
- 2.2.** DFSC and the Military Departments may mutually agree to not include an installation in this program on the basis of obvious uneconomic potential or other grounds. The primary grounds for exemption from this program are:
  - (1) The local distribution company (LDC) will not provide transportation from the citygate;
  - (2) Base realignment and closure (BRAC) actions;
  - (3) Existing contractual arrangements with the LDC or with existing multi-year direct supply natural gas suppliers with better prices or with termination liabilities exceeding DFSC direct supply contract cost benefits;
  - (4) Loss of utility-sponsored demand side management (DSM) program benefits that are greater than the potential savings available via the DFSC direct supply natural gas program;
  - (5) Ongoing or pending legal or regulatory action in which the government's interests would be adversely affected by participation in this program.

- 2.3. In cases where DFSC and the Military Departments cannot reach agreement, installation program participation will be decided by the Office of the Secretary of Defense through the Chairman of the Defense Utilities Energy Coordination Council.
- 2.4. Neither the Military Departments nor DFSC will undertake actions to bypass an LDC distribution system without prior approval of OASD(P&L).
- 2.5. The estimated total annual and average unit cost of the direct supply natural gas provided to an installation through this program will be lower than that offered by the local distribution company (LDC) at the time of contract award, or the comparable per unit cost of any alternative energy readily used by the installation, measured at the burner-tip. Cost factors utilized for these economic comparisons are identified in paragraph 2.6. below.
- 2.6. Each installation will pay the actual costs associated with the acquisition of direct supply natural gas. These costs include the cost of the natural gas commodity, and applicable pipeline transportation, storage costs and backup or standby charges (as applicable and appropriate) for the installation, along with established operating, general and administrative costs directly associated with this program.

### 3.0. RESPONSIBILITIES:

- 3.1. Defense Logistics Agency/Defense Fuel Supply Center will:
  - 3.1.1. Serve as the single manager for acquisition of direct supply natural gas for Defense installations. This responsibility encompasses the consolidation of installations' natural gas requirements as submitted by the Military Departments, perform or arrange for the economic analysis of various supply options, solicitation for and acquisition of direct supply natural gas supplies and transportation to the designated delivery point, gas storage (if determined advantageous), and [when agreed to by both the Military Departments and DFSC], central nominating, balancing and payment of invoices to the DFSC contractor.
  - 3.1.2. Determine the availability of direct supply natural gas and pipeline transportation to reduce energy costs, and solicit, award, and manage supplies under contract for the acquisition and transportation of direct supply natural gas to the "city gate" or "burner tip," as may be agreed with the Military Departments and installations. DFSC will work with suppliers, interstate pipelines and LDCs to increase opportunities for the acquisition and delivery of direct supply natural gas.
  - 3.1.3. Publish a management plan containing detailed instructions and procedures on the centralized, competitive acquisition of direct supply natural gas. The management plan shall be based on established policy

and responsibilities, and will be approved by the Office of the Deputy Assistant Secretary of Defense (Logistics) and coordinated with the Military Departments.

- 3.1.4. Publish an acquisition schedule for the DFSC direct supply natural gas program.
- 3.1.5. Monitor Federal Energy Regulatory Commission (FERC) actions and pipeline transportation rates and advise the Military Departments and Office of the Deputy Assistant Secretary of Defense (Logistics) of findings pertinent to the success of the program.
- 3.1.6. Provide periodic reports to the Military Departments outlining the status of each centralized acquisition of natural gas and pipeline transportation.
- 3.1.7. Arrange regional training for the Military Departments for the centralized acquisition of direct supply natural gas.
- 3.1.8. Monitor gas market and industry trends and provide reports to the Military Departments on significant issues.
- 3.1.9. Explore the feasibility of obtaining federal royalty gas and strategic gas, such as Naval Oil Shale Reserves (NOSR) gas.
- 3.1.10. Notify the Military Departments of any potential for rate intervention identified during centralized direct supply natural gas procurement activities.
- 3.1.11. Develop, program and execute necessary budgets to meet obligations under the direct supply natural gas program.
- 3.1.12. Award separate natural gas assistance contracts to provide expert services on all aspects of the program, to include but not limited to; market identification, pipeline transportation, and economic analysis of gas supply options.
- 3.1.13. Contract with LDCs to provide non-utility service direct supply natural gas to a using installation, if this proves to be the most cost effective method of supplying natural gas to that installation. With the exception of instances where an LDC submits an offer under an ongoing DFSC procurement, DFSC will coordinate with the Military Departments in advance, prior to initiating any discussions with LDCs, to determine if these direct discussions with the LDC would adversely impact any ongoing or planned LDC rate intervention activity, or if any changes are anticipated in the LDC rate structure that would impact on the decision to include the installation in the DFSC direct supply natural gas program. In those instances where an LDC is participating in a DFSC procurement as an offeror, DFSC will not be required to coordinate this information

with the Military Departments prior to initiating discussions with the LDC.

- 3.1.14. Provide to the Office of the Deputy Assistant Secretary of Defense (Logistics) and the Military Departments an annual report, no later than December 15 of each year, on the status of the program including: total operating costs at DFSC and the installations, savings by installation, trends (such as impact of new FERC orders and changes in the industry), and any recommendations for program improvement.

**3.2. The Military Departments will:**

- 3.2.1. Provide natural gas requirements for both interruptible and firm gas supply to DFSC, including any special or installation specific requirements or constraints, such as special service arrangements with the LDC, which may need to be identified in a solicitation.
- 3.2.2. Maintain the installation/LDC relationship regarding transportation of the natural gas from the citygate to the burner tip, when the DFSC contracts specify delivery to the LDC citygate.
- 3.2.3. Maintain the LDC gas utility service contract when the LDC delivered cost of gas is less than the DFSC direct supply natural gas cost delivered to the burnertip, taking into account appropriate gas supply, transportation and administration costs (including any surcharges).
- 3.2.4. Monitor state regulatory commissions' activities and advise DFSC of any regulatory action that may affect the DFSC direct supply natural gas program.
- 3.2.5. Continue to provide utility rate expert and regulatory/rate intervention services for cost of service analysis and rate intervention support for all Military Department installations in the LDC territory in which the Military Department is the dominant user. These services shall be provided for DFSC on a reimbursable basis when so requested.
- 3.2.6. Perform economic analyses as desired, validate installations' natural gas requirements, and provide appropriate requirements (including technical specifications such as the allowable number of days of interruption) to DFSC in accordance with the published natural gas acquisition schedule.
- 3.2.7. Jointly review with DFSC the economic analysis of the various supply options that have been developed by DFSC.
- 3.2.8. Participate in the development of technical criteria for DFSC direct supply natural gas solicitations and participate during the technical review of proposals offered against these solicitations.

- 3.2.9. Ensure their installations have LDC transportation agreements in effect for those DFSC contracts specifying delivery to the LDC citygate, prior to the initial delivery start date as specified in the DFSC direct supply natural gas contracts.
- 3.2.10. Ensure that installation personnel associated with DFSC direct supply natural gas contracts and LDC pipeline transportation agreements are properly trained in the use of these contracts.
- 3.2.11. Report promptly any problems with direct supply natural gas delivery or contract solicitation information to DFSC.
- 3.2.12. Gather and provide to DFSC annual installation administrative costs associated with performing pre- and post-award functions by November 15 of each year for incorporation in their annual report.
- 3.2.13. Nominate and issue delivery orders, via their individual installations, against the DFSC direct supply natural gas contracts, unless otherwise agreed by DFSC and the installations.
- 3.2.14. Make timely payments, via their installations, to contractors for direct supply natural gas and LDC services, unless payment responsibility has been assigned otherwise, as agreed upon by DFSC and the installations or their Military Departments.
- 3.2.15. Develop, program and execute necessary budgets to meet their obligations under the direct supply natural gas program.

#### 4.0. CONTRACTING PROCESS

##### 4.1. Procedural Summary

- 4.1.1. Within the scope of the direct supply natural gas program, DFSC shall solicit and award contracts for both interruptible and firm natural gas supply based on the type of natural gas requirements submitted by the Military Departments.
- 4.1.2. The requirement for an installation to participate in the DFSC program and place orders against the assigned contract shall be based on the economic analyses performed by DFSC. DFSC and the Military Departments will jointly review these analyses to determine if the DFSC contract is the best method to achieve maximum overall savings for the length of the contract delivery period.

4.1.3. Economic analyses will be conducted for each installation in three stages as follows:

(1) Prior to submission of requirements, DFSC will conduct a screening to eliminate service territories and installations that on first appearance are unsuitable;

(2) Prior to inclusion of requirements in the DFSC solicitation a computation will be done by DFSC, to include all appropriate gas supply and cost factors submitted by the installations, and market data available to DFSC. This economic analysis of gas supply options will be jointly reviewed by DFSC and appropriate Military Department representatives.

(3) At the time of initial offers the offered prices will be used by DFSC to update the analyses in paragraph 2) above.

4.1.4. Installations will not be included in the DFSC solicitation if the stage 2 analysis indicates negligible or improbable cost savings. If included in the solicitation, installations will be withdrawn if the economic analyses performed by DFSC after receipt of initial offers (at stage 3 above) indicate negligible or improbable cost savings. In unusual cases where there are no cost savings for an individual installation at time of "best and final" offers (BAFOs), DFSC and the affected Military Departments will determine the best course of action for the government, since other installations may be adversely affected by the potential withdrawal of an installation this late in the acquisition process.

4.1.5. Requirements submitted to DFSC shall designate whether a contract for firm or interruptible gas supply is requested. For those requirements for interruptible gas, where monthly switching is permitted between "sales" and "transportation" gas by the LDC, the most economic source of gas on a month by month basis will be utilized. This cost comparison will be accomplished by DFSC comparing the projected DFSC contractor price for the coming month to the published LDC tariff price for the coming month.

4.1.6. For those requirements for both firm gas, and for interruptible gas where monthly switching is not permitted between "sales" and "transportation" gas by the LDC, the economic analyses performed in stages 1 through 3 above will determine if the installation will participate in the DFSC direct supply natural gas Contracting process. Once a contract is awarded the installations will be required to place orders under the direct supply natural gas contract even if the LDC subsequently lowers its price for the mandatory contract delivery period. *DFSC will not award "take-or-pay" contracts in which the installation must pay a penalty if they have no requirement for gas.* However, transportation pipeline capacity reservation/demand charges will apply for firm contracts.

- 4.1.7. The installations will maintain their retail purchase relationship with their current LDC, when the DFSC contract specifies delivery of the natural gas to the LDC citygate.

#### **Step by Step Process**

#### **4.2. Prior to Solicitation -**

- 4.2.1. DFSC shall notify Services' Utilities Management Offices (SUMOs) of the areas to be solicited and request basic data necessary for solicitation. (If agreeable with the SUMOs, DFSC can notify the major claimants/commands, engineering field divisions or installations directly with an informational notification to the SUMO.)

- 4.2.2. SUMOs are responsible for reviewing installations requirements and advising DFSC if inclusion in the proposed DFSC Request for Proposal (RFP) would adversely impact any ongoing or planned LDC rate intervention activity, demand side management programs or LDC investment programs, or if any changes are anticipated in the LDC rate structure which would impact on the decision to include the installation in the DFSC solicitation. SUMOs should also advise DFSC of any installations to be affected by planned base realignment and consolidation plans or, on an installation basis, of any technical changes in future natural gas requirements or energy systems serving those specific requirements.

- 4.2.3. SUMOs provide installation specific data to DFSC in accordance with the guidelines of the published DFSC natural gas acquisition schedule. If agreeable with the Military Departments, the major commands, engineering field divisions or activities can provide the data directly to DFSC with a notification to the SUMO. Submission of this data will be in accordance with instructions provided by DFSC, but will generally require the following items:

- (1) Indication of LDC willingness to transport natural gas and the applicable rate schedules.
- (2) Identification of the term, conditions and renewal date(s), if any, for existing direct supply natural gas contracts.
- (3) Monthly historical gas use that is appropriate for interruptible and/or firm service requirements; peak day load for interruptible service, if available; maximum daily quantity for firm service, if available.
- (4) Alternate energy sources and current cost.
- (5) POC's at each activity - Name and address of ordering office, invoice receiving office, payment office and contracting office.



6) Specific technical criteria, if unique to a particular installation, to be included in the DFSC solicitation.

4.2.4. SUMOs initiate, or ensure that the installation initiates, a formal agreement with the LDC for transportation of the contract gas volumes, when the DFSC contract specifies delivery of the natural gas to the LDC citygate, and provide appropriate tariff rates to DFSC. This LDC transportation agreement must be formalized and in place prior to the anticipated contract delivery date.

4.2.5. DFSC will develop an economic analysis of the gas supply options.

4.2.6. DFSC and the Military Departments conduct a joint review of the economic analysis to determine which installations will participate in the acquisition process.

4.2.7. DFSC incorporates data into a solicitation package and solicits. Copies of the DFSC solicitation package will be provided to each Military Department.

#### 4.3. After Solicitation -

4.3.1. Upon receipt of initial offers, DFSC will review the economic implications for all participating installations and advise the Military Departments of any installations that should be removed from the solicitation based upon a lack of cost savings opportunities.

4.3.2. The Military Departments will participate in the review of the technical information submitted as part of the proposals offered in response to the DFSC direct supply natural gas solicitation to determine those offerors which are technically qualified.

4.3.3. DFSC will advise the Military Departments of any installations that reflect no cost savings, and the apparent economic impact on those installations and all others in the contract package if the non-economic installations were withdrawn at this time, at the time that "best and final" offers (BAFOs) are evaluated. A coordinated decision will be made by DFSC and the affected Military Departments as to the course of action to follow in instances of this nature. At this late stage in the acquisition process, installations will be deleted from the DFSC solicitation on an exception basis only.

4.3.4. Prior to the planned gas delivery date, DFSC is responsible for making a regional training course available to Military Departments' installation personnel to enable them to carry out their contract support responsibilities.

- 4.3.5. The Military Departments will assure that personnel at all installations participating in the program are sufficiently trained to carry out their responsibilities.

4.4. **After award of the contract -**

- 4.4.1. Installation personnel are responsible for issuing contract delivery orders and nominations, receipting for gas and paying contractor invoices, unless otherwise agreed upon by DFSC and the Military Departments [as is the case in California where DFSC handles these functions with the DFSC contractor, and the installations reimburse DFSC for these applicable costs.]

- 4.4.2. Each installation covered by the contract is responsible for monthly nomination of gas quantities based on projected gas consumption during the subsequent month. If they order gas from the DFSC contract, installations are responsible for making sure that they don't order more than they use in the subsequent month or, if they do, they make it up in the balance period specified in the contract with the LDC, or they pay the resultant penalty, if any.

- 4.4.3. Installations will maintain their relationship with their current LDC, when the DFSC contract specifies delivery of the natural gas to the LDC citygate, when the LDC allows switching, or when the installation is buying gas under a contract with the LDC. For interruptible and/or firm transportation contracts, natural gas service and backup, if appropriate, will be obtained from the LDC under tariff rates, terms and conditions. Determining which gas to order will be based on comparison of the DFSC unit price for direct supply natural gas delivered to the burner tip (with surcharge and including the cost of backup service if appropriate), to the LDC's tariff unit price of gas in effect and available at the time the monthly nomination must be made to the DFSC contractor.

- 4.4.4. Installations will furnish DFSC, and their SUMO and/or Major Claimant/Command as appropriate, copies of each delivery order and invoice, and immediately notifying the above of any gas supply or contract problems.

- 4.4.5. DFSC is responsible for direct supply natural gas contract administration and for assuring that the contractor fulfills his contract obligations, e.g., to deliver nominated quantities of gas to the designated delivery point at the rate contracted.

4.5. **Natural Gas Contracting Transition -**

- 4.5.1. The Military Departments will submit requirements to DFSC for installations which have contracts expiring (this includes expiration of the basic contract delivery period or any option year delivery period)

during the forthcoming DFSC contract period. The delivery period for those installations stated in the DFSC contract will coincide with the expiration date of the existing Military Department contracts. Installations in the region to be solicited that have existing long term contracts that are not due to expire (basic contract or option year delivery periods) will not be provided for inclusion in the DFSC market survey and analysis.

- 4.5.2. Existing direct supply natural gas contracts awarded by the Military Departments will continue to be processed by the responsible Military Department up to the first renewal option, if such option exists, until and unless formally turned over by the Military Departments to DFSC. Requirements for installations which have existing contracts with option renewal periods will be submitted to DFSC in accordance with the DFSC direct supply natural gas acquisition schedule prior to exercising each contract extension option. An economic analysis will be conducted by DFSC and jointly reviewed by the Military Departments and DFSC to determine whether to include the installation(s) in the DFSC solicitation or to exercise the extension provisions for the existing contract. Detailed operating arrangements will be negotiated as necessary and approved at the working level offices designated below.

## 5.0. COMMUNICATION

- 5.1. The following are the technical and program management points of contact in DFSC and the Service Utilities Management Offices (SUMO's):

Defense Logistics Agency

Defense Fuel Supply Center  
ATTN: DFSC-A  
Cameron Station  
Alexandria, VA 22304-6160  
Phone # (703)274-7423/21 DSN  
284-7423/21

Department of Army

U.S. Army Engineering & Housing  
Support Center  
ATTN: CEHSC-C  
Ft. Belvoir, VA 22060-5516  
Phone # (703)355-7361 DSN  
345-7361

Department of Navy

Naval Facilities Engineering Cmd  
ATTN: Code 165  
Alexandria, VA 22332-2300  
Phone # (703)325-0135 DSN  
221-0135

Department of Air Force

HQ Air Force Civil Engineering  
Support Agency  
ATTN: HQ AFCEA/ENE  
139 Barnes Drive  
Tyndall AFB, FL 32403 - 5319  
Phone # (904)283-6463  
DSN 523-6463

6.0. **DEFINITIONS:**

- 6.1. **Burner Tip:** The point in an installations natural gas system at which the natural gas is actually consumed.
- 6.2. **Citygate:** The point in the natural gas transmission system at which the local distribution company (LDC) receives wholesale gas deliveries.
- 6.3. **DFSC Surcharge:** A pro rata administrative surcharge reflecting the operational, general and administrative costs incurred by DFSC for their operation of the direct supply natural gas program.
- 6.4. **Direct Supply Natural Gas Contracting:** Contracting under a single manager process that aggregates the requirements of various customers for competitive acquisition.
- 6.5. **Firm Natural Gas Contracts:** As referred to in this document, firm natural gas contracts are those which require delivery of a specified quantity of supply.

Pipeline reservation (demand) charges for firm natural gas contracts are paid (whether natural gas is delivered or not) based upon an established maximum daily quantity (MDQ) of natural gas that the pipeline has agreed will be delivered to a firm transportation customer serviced by the pipeline.

- 6.6. **Interruptible Natural Gas Contracts:** Interruptible natural gas contracts are those in which the delivery of natural gas may be curtailed or interrupted (usually with some advance notice) based upon pipeline capacity limitations. Curtailments of this nature are more prone to occur during peak demand time frames.
- 6.7. **LDC Backup and Standby Charges:** Charges imposed by an LDC to a transportation service customer for the purpose of providing backup and standby services.
- 6.8. **Monthly Switching:** The process in which a local distribution company (LDC) allows customers to switch sources of natural gas supply, on a monthly basis, between the LDC "sales" gas or another suppliers' "transportation" gas.
- 6.9. **Sales Gas:** In relation to a local distribution company (LDC), that gas obtained by a customer directly from the LDC under established tariff rates.
- 6.10. **Transportation Gas:** In relation to a local distribution company (LDC), that gas obtained by a customer from another source and/or supplier that is allowed to be transported over the LDC's distribution system.